

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF PARKSVILLE WATER)
DISTRICT, OF BOYLE COUNTY, KENTUCKY,)
FOR APPROVAL OF THE INCREASED WATER) CASE NO. 10332
RATES PROPOSED TO BE CHARGED BY THE)
DISTRICT TO CUSTOMERS OF THE DISTRICT)

O R D E R

On July 28, 1988, Parksville Water District ("Parksville") filed an application seeking a rate increase to raise additional revenue of \$55,843, a 30.54 percent increase above the \$182,837 revenues generated by Parksville's existing rates.

After conducting a field review of Parksville's test period financial records, the Commission Staff ("Staff") issued its report on November 3, 1988. In that report, Staff recommended among other things, a reduction in Parksville's annual operating revenues from \$182,837 to \$126,643, authorization of a monthly surcharge of 80 cents per customer to repay its outstanding short-term debt,¹ and authorization of a monthly surcharge of \$2.54 per customer to repay the \$210,000 balloon payment.²

¹ At the close of the test year, Parksville had \$35,000 in outstanding short-term debt in the form of notes payable to the Farmers National Bank of Danville, Kentucky. All references to "short-term debt" in this Order are to this debt.

² Under the terms of Parksville's bond ordinance, Parksville must make a \$210,000 balloon payment in April 1995 to its bondholders. All references herein to "long-term balloon payment" are this payment.

In its written response to the Staff Report, Parksville neither formally contested the report's recommendations nor requested a hearing in this matter. It did, however, take exception to Staff's recommendation that no adjustment be made to its test year expenses for an increase in its manager's salary. Parksville also noted an error in Staff's recommended rate schedule.

In its application, Parksville sought an adjustment to its test year expenses to include a recent increase in its manager's salary from \$75 per month to \$125 per week. Asserting that Parksville had not presented evidence supporting the salary increase and that the increase was not justified because the bulk of Parksville's office duties were performed by another employee, Staff recommended denial of the proposed adjustment.

In its response to the Staff report, Parksville stated that its manager's duties extended far beyond managing an office, that he was responsible for overseeing the water district's entire operation. As support for this proposition, it submitted a copy of the minutes of Parksville Water District Commissioners' March 15, 1988 meeting in which a description of the manager's duties appears.³

The Commission is unpersuaded by Parksville's argument. Although the burden of persuasion is upon it, Parksville has not presented any detailed evidence to show the actual duties

³ The manager shall oversee operation of the district, promote expansion of the water system, and promote increased development within the existing system.

performed by its manager or the amount of work and effort required by the position. The job description contained in the minutes of the commissioners' meeting is at best vague and general. From that description, it appears that the manager's primary duties focus on promotion and development - duties more associated with a water district commissioner, not system management. As the current manager also serves as a commissioner, the Commission does not believe the salary increase to be reasonable.

The Commission has also reviewed Parksville's claims of an error in the rate schedule recommended by Staff and agrees that the schedule contains a significant error.⁴

In reviewing the Staff Report, the Commission notes with some concern Parksville's continuing problems with its financial records. Parksville must take steps to implement a permanent filing system for its invoices and a more precise financial accounting system based on accrual accounting.

After review of the evidence of record and being advised, the Commission is of the opinion and finds that:

1. The rates and charges proposed by Parksville will produce revenues greater than those found reasonable herein and should be denied.

⁴ The first rate step for the 1-inch meter was incorrectly derived by adding the \$7.92 rate for the first 1000 gallons of the 5/8 inch meter rate block with \$2.70 for the next 1000 gallons of the 5/8 inch meter rate block. The \$7.92 should have been added to \$10.80 (\$2.70 x 4000 gallons) yielding the correct rate for the first 5,000 gallons of the 1-inch meter rate block of \$18.72.

2. The findings and recommendations contained in the Staff Report, with the exception of Staff's proposed rate schedule, should be adopted as the Commission's own findings.

3. Parksville should be authorized to assess a monthly surcharge of 80 cents per customer for a period not to exceed 5 years or the retirement of its outstanding short-term debt, whichever occurs first. The proceeds of this surcharge should be used exclusively for Parksville's monthly short-term debt payments.

4. Parksville should be authorized to assess a monthly surcharge of \$2.56 per customer for a period not to exceed 75 months. The proceeds of this surcharge should be invested in a separate interest bearing account and used only for the retirement of Parksville's long-term balloon payment. If the sum of total surcharge proceeds and any accumulated interest earned thereon reaches \$210,000 before the 75 month period ends, Parksville should cease assessing the surcharge.

5. Parksville should list each surcharge as a separate line item on its customer billings.

6. Parksville should submit to the Commission within 45 days of the close of each calendar quarter a written report which states the amount of monthly collections for each surcharge and the outstanding short-term debt at the close of the quarter. Parksville should include with this report a copy of the most current statement of the balloon payment account showing the account's present balance.

7. If Parksville fails to submit the required report within the prescribed time, its failure should warrant the forfeiture of the surcharges and the refund of their proceeds.

8. The rates and charges contained in Appendix A are the fair, just, and reasonable rates and charges to be charged by Parksville, for water sold on and after December 15, 1988 as they should produce annual revenues of \$194,614 and monthly surcharges of \$726.54 and \$2,302. They should, therefore, be approved.

9. Within 30 days of the date of this Order, Parksville should file with the Commission its revised tariff sheets setting out the rates approved herein.

BE IT SO ORDERED.

Done at Frankfort, Kentucky, this 13th day of December, 1988.

PUBLIC SERVICE COMMISSION

Chairman



Vice Chairman



Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 10332 DATED 12/13/88

The following rates and charges are prescribed for the customers in the area served by Parksville Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

5/8 Inch Meter

| <u>Usage Blocks</u> | <u>Monthly Rates</u> |
|---------------------|------------------------|
| First 1,000 gallons | \$7.92 Minimum Bill |
| Next 4,000 gallons | 2.70 per 1,000 gallons |
| Next 5,000 gallons | 2.55 per 1,000 gallons |
| Over 10,000 gallons | 2.40 per 1,000 gallons |

1 Inch Meter

| <u>Usage Blocks</u> | <u>Monthly Rates</u> |
|---------------------|------------------------|
| First 5,000 gallons | \$18.72 Minimum Bill |
| Next 5,000 gallons | 2.55 per 1,000 gallons |
| Over 10,000 gallons | 2.40 per 1,000 gallons |

Surcharges

\$.80 per month for a period of 60 months.
\$2.56 per month for a period of 75 months.